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GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

OPEN MEETING ITEM



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ARIZONA CORPORATION COMMISSION

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DOCKET CONTROL

DATE: APRIL 16, 2013
DOCKET NO.: T-01847A-12-0485

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Opinion and Order on:

VALLEY TELEPHONE COOPERATIVE, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

APRIL 25, 2013

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

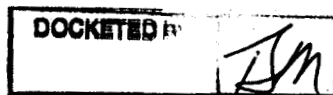
MAY 1, 2013 AND MAY 2, 2013

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

APR 16 2013



Jodi A. Jerich
JODI JERICH
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 BOB STUMP - Chairman
4 GARY PIERCE
5 BRENDA BURNS
6 BOB BURNS
7 SUSAN BITTER SMITH

8 IN THE MATTER OF THE APPLICATION OF
9 VALLEY TELEPHONE COOPERATIVE, INC.
10 FOR A HEARING TO DETERMINE THE
11 EARNINGS OF THE COMPANY, THE FAIR
12 VALUE OF THE COMPANY FOR RATEMAKING
13 PURPOSES, AND TO INCREASE RESIDENTIAL
14 RATES AS NECESSARY TO COMPENSATE FOR
15 THE RATE IMPACTS OF THE FCC'S USF/ICC
16 TRANSFORMATION ORDER.

DOCKET NO. T-01847A-12-0485

DECISION NO. _____

17 **OPINION AND ORDER**

12 DATE OF HEARING: March 26, 2013

13 PLACE OF HEARING: Phoenix, Arizona

14 ADMINISTRATIVE LAW JUDGE: Teena Jibilian

15 APPEARANCES: Mr. Craig A. Marks, CRAIG A. MARKS, PLC, on
16 behalf of Applicant; and

17 Mr. Charles O. Hains and Mr. Brian E. Smith, Staff
18 Attorneys, Legal Division, on behalf of the Utilities
19 Division of the Arizona Corporation Commission.

18 **BY THE COMMISSION:**

19 On November 23, 2012, Valley Telephone Company ("Valley Telephone" or "Company")
20 filed with the Arizona Corporation Commission ("Commission") the above-captioned application.
21 The application states that it was filed pursuant to A.R.S. § 40-250 and Arizona Administrative Code
22 R14-2-103, to compensate for the rate impacts of the Federal Communication Commission's
23 ("FCC's") November 18, 2011 Universal Service Fund/Inter-carrier Compensation ("USF/ICC")
24 Transformation Order ("USF/ICC Transformation Order").¹

25 * * * * *

26 Having considered the entire record herein and being fully advised in the premises, the

27 _____
28 ¹ FCC 11-161, *Connect America Fund, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking*, 26 FCC Rcd 17663 (November 18, 2011); *pets. for review pending* (10th Cir. filed Dec. 8, 2011).

1 Commission finds, concludes, and orders that:

2 **FINDINGS OF FACT**

3 **Procedural History**

4 1. On December 4, 2012, Valley Telephone filed the rate application with the
5 Commission.

6 2. On January 22, 2013, Valley Telephone filed a Motion for Procedural Order.

7 3. On January 28, 2013, a Rate Case Procedural Order was issued, setting the matter for
8 hearing and establishing associated procedural deadlines, including the mailing of notice of the
9 application and hearing to all of Valley Telephone's customers.

10 4. On February 22, 2013, Valley Telephone filed an Affidavit indicating that notice as
11 ordered by the Rate Case Procedural Order was mailed to each customer of Valley Telephone.

12 5. No requests for intervention were filed.

13 6. On March 14, 2013, Staff filed its Staff Report recommending approval of the
14 application, for an increase from \$13.75 to \$14.00 in the monthly residence local exchange rate to
15 address the impact of the FCC's USF/ICC Order.

16 7. On March 21, 2013, Staff filed the Testimony Summary of its witness.

17 8. No public comment was filed in opposition to the rate increase.

18 9. On March 26, 2013, a hearing on the application was convened before a duly
19 authorized Administrative Law Judge of the Commission. Valley Telephone and Staff appeared
20 through counsel, presented testimony and evidence through witnesses, and were provided an
21 opportunity to cross examine witnesses. No members of the public appeared to provide public
22 comment.

23 10. Following the parties' submission of evidence, the matter was taken under advisement
24 pending the submission of a Recommended Opinion and Order.

25 **Valley Telephone**

26 11. Valley Telephone is an Arizona public service corporation engaged in the business of
27 providing telephone utility service to the public in Cochise and Graham Counties, Arizona. It also
28 provides service to the public in portions of New Mexico. In its April 15, 2012, Utilities Annual

1 Report, Valley Telephone reported 1,780 residential lines and 464 business lines.

2 12. Valley Telephone's rates were originally set at the time of its formation in 1962 and
3 reset to \$12.00 in August 1970. In mid to late 1990s, the base residential rate of \$12.00 was
4 combined with the Touch Tone service charge, resulting in the present residential rate of \$13.75.

5 13. Valley Telephone is a rate of return incumbent local exchange carrier ("ILEC")
6 eligible to receive federal high-cost loop support ("FHCLS").

7 **FCC USF/ICC Order**

8 14. On November 18, 2011, the FCC issued the USF/ICC Order. The USF/ICC Order
9 provides for a transition from former federal universal service programs and most intercarrier
10 compensation systems into a new Connect America Fund ("CAF"). In its USF/ICC Order, the FCC
11 states that by July 1, 2020, intercarrier compensation rates for rate of return companies will be
12 reduced to zero. The recovery from the CAF will phase out over time at 5 percent annually.

13 15. The USF/ICC Order adds new rules that will reduce FHCLS to carriers by the amount
14 their flat-rate residential local service rates fall below a specified local service rate floor. The rate
15 floor includes state subscriber line charges, state universal service fees, and mandatory extended area
16 service charges, if any are assessed. The USF/ICC Order establishes those rate floors at \$14.00 as of
17 June 1, 2013, with the floor thereafter being determined annually by the FCC's Wireline Competition
18 Bureau.

19 16. As a recipient of FHCLS, Valley Telephone is affected by the FCC USF/ICC Order.
20 Under the USF/ICC Order, to continue receiving FHCLS, rural ILECs such as Valley Telephone
21 must increase their residential local rates to the FCC-mandated residential rate floors. Otherwise, the
22 amount of FHCLS funds received will be reduced dollar-for-dollar for each customer by the
23 difference between the existing local rate and the new rate floor.

24 **Application**

25 17. The application requests that Valley Telephone be authorized to raise its residential
26 local rates from \$13.75 to the \$14.00 rate floor mandated by the USF/ICC Order to allow it to
27 continue receiving FHCLS.

28 18. Valley Telephone submitted the application, after consulting with Staff, in a

1 "streamlined" form. The application and accompanying exhibits in support of Valley Telephone's
2 requested increase in residential rates are based on the twelve months ending December 31, 2011.

3 19. For the twelve months ending December 31, 2011, Valley Telephone's filing indicates
4 total Arizona Intrastate Operating Revenues of \$4,533,525 (which includes FHCLS and Federal
5 Safety Net Additive Support of \$3,478,458), and total Arizona Intrastate Operating Expenses of
6 \$4,318,913, for total Arizona Intrastate Operating Income of \$214,612.

7 20. The filing indicates a total Arizona rate base of \$30,718,283, of which \$12,064,884 is
8 interstate, and \$18,653,398 is intrastate.

9 **Staff Recommendations**

10 21. Staff states that it reviewed the application and the federal rule changes that prompted
11 its filing. Staff states that it concluded that the costs appear reasonable and appropriate under the
12 unique circumstances of this case, but that its recommendation should not be viewed as precedent for
13 the processing of future rate case applications.

14 22. Staff states that for the purposes of this proceeding, Valley Telephone stipulated to the
15 use of original cost less depreciation ("OCRB") as the basis for a determination of its fair value rate
16 base ("FVRB").

17 23. Staff reviewed and analyzed the filing, but did not perform a regulatory audit. Staff
18 does not recommend that Valley Telephone's rates be set based on a revenue requirement analysis.

19 24. Staff states that the annual revenue effect of Valley Telephone's requested increase in
20 local telephone service rates to \$14.00 would be \$5,245. Staff states that compared to Valley
21 Telephone's total revenues, any revenue impact from this rate increase would be small, and any
22 impact on Valley Telephone's fair value rate of return would be de minimus.

23 25. Staff recommends that Valley Telephone's monthly residence local exchange rate be
24 increased from \$13.75 to \$14.00 to address the impact of the USF/ICC Transformation Order. Staff
25 states that it believes the requested increase is just, fair, and reasonable for the following reasons:

- 26 (a) The increase is necessitated by the FCC's November 18, 2011 USF/ICC
27 Transformation Order;
- 28 (b) The increase is necessary to preserve the entirety of the federal USF funds that
may flow to Valley Telephone pursuant to the FCC's rules;

1 (c) The increase will minimize/reduce the amount of future rate increase; and

2 (d) The increase will allow Valley Telephone to receive matching funds from the
3 FUSF.

4 26. The Staff Report states that on December 12, 2012, the Records Section of the
5 Corporations Division responded that Valley Telephone is in Good Standing, and a review of
6 Consumer Services database revealed that four complaints, inquiries and opinions were received
7 pertaining to Valley Telephone for the period January 1, 2009 – December 12, 2012. The Staff
8 Report indicates that all four issues were addressed successfully and in a timely manner, and the files
9 are closed.

10 27. Staff states that a check of the Utilities Division Compliance Section database showed
11 that Valley Telephone is in compliance with all items.

12 **Conclusions**

13 1. Under the particular circumstances of this proceeding, a rate of return analysis is not
14 useful.

15 2. According to the evidence presented, the rate increase request will have a de minimus
16 impact on Valley Telephone's return on FVRB.

17 3. Staff's recommendations are reasonable and should be adopted.

18 4. Under the particular circumstances of this proceeding, Valley Telephone's rates for
19 residential local service should increase from the currently tariffed rate of \$13.75 to \$14.00, and all
20 other currently tariffed rates should remain unchanged, in order to assure continued FUSF support for
21 Valley Telephone's services.

22 **CONCLUSIONS OF LAW**

23 1. Valley Telephone is a public service corporation within the meaning of Article 15 of
24 the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

25 2. The Commission has jurisdiction over the Company and over the subject matter of this
26 proceeding.

27 3. The Company provided notice of this proceeding in accordance with law.

28 4. The Company's Arizona Intrastate FVRB as of December 31, 2011, is \$30,718,283.

3 6. Under the particular circumstances of this proceeding, it is appropriate to increase
4 Valley Telephone's rates for residential local service from the currently tariffed rate of \$13.75 to
5 \$14.00, and to leave all other currently tariffed rates unchanged, in order to assure continued FUSF
6 support for Valley Telephone's services.

7 7. The rates and charges authorized herein are just and reasonable and promote the public
8 interest.

9 8. The Company should be directed to file revised tariffs showing the rates authorized
10 herein.

11 ORDER

12 IT IS THEREFORE ORDERED that Valley Telephone Company shall increase its rates and
13 charges in accordance with the Findings of Fact herein.

14 IT IS FURTHER ORDERED that such new rates and charges shall be effective for Valley
15 Telephone Company's billings on or after June 1, 2013.

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1 IT IS FURTHER ORDERED that Valley Telephone Company is authorized and directed to
2 file, on or before May 31, 2013, revised schedules of rates and charges consistent with the Findings
3 of Fact and Conclusions of Law contained herein.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
7
8 CHAIRMAN

COMMISSIONER

9
10 COMMISSIONER

COMMISSIONER

COMMISSIONER

11
12 IN WITNESS WHEREOF, I, JODI JERICH, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
Commission to be affixed at the Capitol, in the City of Phoenix,
this _____ day of _____ 2013.

15
16 JODI JERICH
17 EXECUTIVE DIRECTOR

18 DISSENT _____

19
20 DISSENT _____

1 SERVICE LIST FOR: VALLEY TELEPHONE COOPERATIVE, INC.

2 DOCKET NO.: T-01847A-12-0485

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